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ORIGIN EUR-12

INFO OCT-01 ISO-00 SS-15 INR-07 EB-07 SSO-00 CCO-00 /042 R

DRAFTED BY EUR/WE:EMROWELL:JF

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C O N F I D E N T I A L STATE 194913 TOSEC 200067

FOR THE SECRETARY FROM ARMITAGE, ACTING

E.O. 11652: GDS

TAGS: PFOR, PO

SUBJECT: BRIEFING MEMORANDUM -- THE SOARES GOVERNMENT'S
PROGRAM

1. THE GOVERNMENT "PROGRAM" DESCRIBED BY MARIO SOARES IN
A FIVE-HOUR SPEECH TO THE OPENING SESSION OF THE PORTUGUESE
NATIONAL ASSEMBLY AUGUST 2 CALLS FOR A DEMOCRATIC STATE
ORIENTED TOWARD WESTERN EUROPE AND PLACES HIGHEST
PRIORITY ON ECONOMIC RECOVERY. THE PROGRAM IS ALMOST
CERTAIN TO SURVIVE THE ASSEMBLY REVIEW WHICH BEGAN AUGUST
5, THUS CONFIRMING IN OFFICE THE SOCIALIST (PS) MINORITY
GOVERNMENT.

2. CONSTITUTIONAL MECHANICS

THE ASSEMBLY MAY DEBATE THE PROGRAM FOR FIVE DAYS. IT IS
DEEMED APPROVED UNLESS THE ASSEMBLY REJECTS IT DURING THIS
PERIOD BY AN ABSOLUTE MAJORITY OF MEMBERS PRESENT AND
VOTING. ONCE A PROGRAM HAS PASSED, SAFEGUARDS INTENDED
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TO PREVENT FREQUENT CHANGES IN GOVERNMENT MAKE IT DIFFICULT

TO OUST A SITTING GOVERNMENT. SOARES' PROGRAM SHOULD PASS EASILY SINCE, OF THE 263 SEATS IN THE ASSEMBLY, THE PS HAS 107 AND THE POPULAR DEMOCRATS (PPD), WHO HAVE SAID THEY WILL NOT OPPOSE IT, HAVE 73. (THE CHRISTIAN DEMOCRAT-

ORIENTED CDS, ALSO NOT OPPOSED, HAS 42 SEATS, THE COMMUNISTS HAVE 40, AND THE ULTRA-LEFT UDP HAS ONE.)

3. REACTIONS TO THE "PROGRAM"

THE 260-PAGE DOCUMENT DETAILING THE PROGRAM IS STILL BEING ANALYZED. BASED ON SOARES' AUGUST 2 PRESENTATION, THE SEVEN BROAD GOALS ARE:

- BUILDING A DEMOCRATIC STATE;
- PLANNING AND REORGANIZING THE ECONOMY;
- ENSURING FINANCIAL STABILITY;
- "CONSOLIDATING" PRODUCTION AND REDUCING UNEMPLOYMENT;
- REDUCING INCOME DIFFERENTIALS;
- IMPROVING QUALITY OF LIFE; AND
- PROMOTING NATIONAL INDEPENDENCE AND INTERNATIONAL COOPERATION.

AS EXPECTED, NON-GOVERNMENT PARTIES WERE COOL TO A PROGRAM THAT THEY HAD HAD NO HAND IN DRAFTING. HOWEVER, ONLY THE COMMUNISTS AND THE FAR-LEFT UDP WERE OPENLY HOSTILE. SA CARNEIRO SAID HIS PPD WILL NOT ORGANIZE A SYSTEMATIC OPPOSITION, BUT WILL VOTE SPECIFIC IMPLEMENTING BILLS UP OR DOWN ACCORDING TO THEIR INDIVIDUAL MERITS. SOARES' THEMES OF LABOR DISCIPLINE, AUSTERITY, BUDGETARY RESTRAINT AND NEED FOR PRIVATE INVESTMENT APPEAL TO PPD AND CDS DELEGATES. HOWEVER, THEIR COOL REACTION TO HIS SPEECH UNDERSCORES THE NEED FOR SOARES TO TAKE THEIR VIEWS INTO ACCOUNT IN FORMULATING PROPOSALS.

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4. ECONOMIC RECOVERY PROGRAM

SOARES CORRECTLY NOTED TREASURY DEFICITS, THE BALANCE OF PAYMENTS DEFICIT, AND DECLINES IN PRODUCTION AND PRODUCTIVITY AS KEY PROBLEMS. THERE WILL BE AN AUSTERITY PROGRAM THAT WILL "OBLIGE EVERYONE TO SACRIFICE", BUT THE "SACRIFICES" WERE NOT SPECIFIED. HE HOPES TO CUT BUDGET

DEFICITS BY RESTRAINING EXPENDITURES AND SELLING BONDS
(A NEW AUGUST ISSUE IS DOING WELL).

THERE IS MAJOR EMPHASIS ON LABOR DISCIPLINE, REWARDS FOR
GOOD WORKERS, AND PUNISHMENT FOR POOR ONES. ABSENTEEISM
AND STRIKES MUST BE CUT AND LABOR-MANAGEMENT RELATIONS

IMPROVED. SOARES PROMISED TO PROSECUTE UNDER THE
CRIMINAL CODE PERSONS INVOLVED IN ILLEGAL PRACTICES SUCH
AS LOCK-INS OF MANAGERS. HE ALSO PROMISED TO SUBMIT
WITHIN SIX MONTHS LEGISLATION TO ABOLISH THE UNIFIED UNION
STRUCTURE AND TO REVISE THE STRIKE LAW.

5. FOREIGN POLICY: EUROPEAN VOCATION; AZORES BASE TALKS

SOARES REAFFIRMED A CLEAR "OPTION FOR EUROPE", ANNOUNCING
THAT PORTUGAL WILL JOIN THE COUNCIL OF EUROPE BEFORE YEAR'S
END AND INITIATE TALKS LEADING TO EC MEMBERSHIP. CLOSE
RELATIONS WITH "PORTUGAL'S OLDEST ALLY", THE UK, ALSO
WILL BE MAINTAINED. SOARES GAVE SPECIAL THANKS TO THE
US AND THE FRG FOR HELP DURING THE PAST TWO YEARS. HE
SAID PORTUGAL'S ALLEGIANCE TO NATO HAD NEVER BEEN IN
QUESTION. PORTUGAL WILL CONTINUE TO WORK FOR BETTER RELA-
TIONS WITH THE THIRD WORLD, ESPECIALLY ARAB STATES, BUT
SOARES PLACED RELATIVELY LESS EMPHASIS ON THIRD WORLD
TIES THEN HIS PREDECESSOR, MELO ANTUNES, WAS WONT TO DO.
IN BOTH HIS STATEMENT AND IN THE FOLLOWING QUESTION AND
ANSWER SESSION SOARES AFFIRMED THAT HE WILL MOVE TO NOR-
MALIZE RELATIONS WITH ISRAEL, AND A FOREIGN MINISTRY
SPOKESMAN LATER IMPLIED THAT HE HOPED THIS COULD TAKE
PLACE AT AN EARLY DATE.

OF MAJOR INTEREST TO THE US WAS SOARES' STATEMENT THAT HE
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INTENDS TO RESUME NEGOTIATIONS (PENDING SINCE 1974) FOR
THE US AIR BASE AT LAJES IN THE AZORES. SOARES SAID THAT
"JUST COMPENSATION" WILL BE SOUGHT AND THAT A SHARE WILL
GO TO THE AZOREANS WHO WILL PARTICIPATE IN THE NEGOTIATIONS
THROUGH THEIR REGIONAL GOVERNMENT. THIS IS CONSISTENT WITH
EARLIER SIGNALS WE HAVE RECEIVED ON THE SUBJECT, INCLUDING
HINTS THAT THE PORTUGUESE EXPECT A NEW AGREEMENT TO PRO-
VIDE MAJOR MILITARY AND ECONOMIC ASSISTANCE. INCLUSION
OF THE TOPIC IN THE PROGRAM ADDRESS PROBABLY WAS NECESSARY
AS A POLITICAL BOW TO THE AZORES, AND DOES NOT NECESSARILY
MEAN THE GOP WILL BE ANXIOUS TO TALK IN THE NEAR FUTURE.
WE HAVE TOLD THE GOP WE ARE READY WHENEVER THEY ARE.

6. OUR ASSESSMENT

DESPITE A LACK OF SPECIFICS AND SOME FLAVOR OF "ALL THINGS TO ALL MEN", THE GENERAL OUTLINES OF THE PROGRAM ARE GOOD. BUT THERE ARE CONTRADICTORY LINES IN THE ECONOMIC RECOVERY PROGRAM -- PLEDGES OF BOTH AUSTERITY AND INCREASES IN REAL INCOME; STRESS ON BOTH BUDGET CUTS AND EXPANDED SOCIAL PAYMENTS. THERE ALSO SEEMS TO BE LITTLE SENSE OF URGENCY. IMPLEMENTING LEGISLATION IS TO START REACHING THE ASSEMBLY IN MID-OCTOBER, AND THE ONE-YEAR ECONOMIC PLAN IS TO REACH

IT ONLY IN MID-NOVEMBER.

SOARES CLEARLY IS COUNTING HEAVILY ON RENEWED INVESTOR INTEREST (RESULTING FROM LABOR DISCIPLINE AND RATIONALIZED RULES OF THE GAME) AND CONTINUED FOREIGN AID TO GET HIM THROUGH. INVESTORS, HOWEVER, WILL WANT TO SEE HOW WELL SOARES STEERS THE NARROW COURSE BETWEEN THE ECONOMICALLY NECESSARY AND THE POLITICALLY POSSIBLE BEFORE THEY RETURN IN SIGNIFICANT NUMBERS. MEANWHILE, BOTH THE RIGHT AND

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THE EXTREME LEFT BELIEVE, NOT ENTIRELY WITHOUT REASON, THAT THEY WILL HAVE DRAMATIC NEW POLITICAL OPPORTUNITIES BY THE BEGINNING OF NEXT YEAR, NO MATTER HOW GOOD SOARES' INTENTIONS.

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S/S: HABIB

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, CENTRAL GOVERNMENT, ECONOMIC PROGRAMS, DEVELOPMENT PROGRAMS, FORM OF GOVERNMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 05 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE194913
Document Source: CORE
Document Unique ID: 00
Drafter: EMROWELL:JF
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760302-0889
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760881/aaaacsuq.tel
Line Count: 203
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUL 2004 by ElyME>; APPROVED <02 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRIEFING MEMORANDUM -- THE SOARES GOVERNMENT'S PROGRAM
TAGS: PFOR, PGOV, PO
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006